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SEPTEMBER 4, 2006

Up Front

Edited by Deborah Stead

Talk Show

"Quattrone was a very big fish, but the evidence against him was not very good." -- John Fahy, a former federal prosecutor in New Jersey, on former investment banker Frank Quattrone's deal with prosecutors allowing him to avoid a third trial and return to business, as reported by Bloomberg News



REWIND

A Stock Soars On High Anxiety

Heavy demand for security technology drove American Science & Engineering (ASEI) to No. 12 on *BusinessWeek's* latest Hot Growth ranking of 100 small companies earlier this year (BW -- June 5). But on Aug. 9 the Billerica (Mass.) company announced disappointing earnings, and its stock fell 21%, to 36.30 a share.

Now AS&E's fortunes have changed again -- literally overnight. On Aug. 10, British authorities announced they had thwarted an alleged terrorist plot to blow up airplanes using explosives hidden in sports drinks. AS&E makes X-ray systems for screening cargo, vehicles, luggage, and even people. And unlike standard metal detectors used in airports, its system can spot liquids. It therefore could be used to nab anyone attempting to sneak them onto planes. The U.S. Homeland Security Dept.'s Transportation Security Administration is planning to test AS&E's people-screening systems in airports.

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The company's stock flew to 47.20 on news of the terrorist plot, marking a full recovery from its earnings-related swoon. It could take several months for AS&E's top line to reflect the impact of all this. But, says Bob Postle, the company's vice-president for sales and marketing, "we've certainly had an increase in phone calls."

By Arlene Weintraub

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HOMEBUILDERS**Dear Ben, Feel Our Pain**

With housing slumping dramatically, hopes for a soft landing in the sector could be evaporating. According to Goldman Sachs (GS), housing inventories are at their highest levels in more than a decade. Just how worried are homebuilders? A few weeks ago, on the eve of the Federal Reserve Board's Aug. 8 Open Market Committee meeting, the National Association of Homebuilders sent letters to Fed Chief Ben Bernanke and each of the other members of the interest-rate-setting committee. The message: Official stats don't capture how badly housing is hurting, since those figures don't include canceled contracts, which doubled over the past year. The letter also argued that inflation is more benign than feared, because one measure, rising rents, is overweighted in the consumer price index. NAHB Chief Economist David Seiders says this is the first time since he joined the staff, in 1984, that the group has written such a letter to the Fed.

Granted, such a move seems mild compared with the actions of the early 1980s, when, to protest double-digit interest rates, a desperate NAHB mailed lumber (two-by-fours, meant to symbolize unbuilt homes) to then Fed Chief Paul Volcker. And it's not known if the NAHB's recent letter influenced the bankers in the marble temple, who chose -- for the first time in two years -- not to raise rates at its August meeting. But, says Tom Schlesinger, director of the Financial Markets Center, a Fed watchdog group, the urgent communication is "certainly a symptom" of the current anxiety.

By Catherine Yang

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VERBATIM**"Shop In Thrift Stores" (Tip No. 39)**

From "101 Ways to Save Money," sent by Northwest Airlines to a number of employees coping with steep pay cuts and layoffs as part of the airline's plan to emerge from Chapter 11.

- 8. Replace 100 watt bulbs with 60 watt.
- 15. Get hand-me-down clothes and toys for your kids from family and friends.
- 18. Take a shorter shower.
- 21. Make your own baby food.
- 34. Change the oil in your car yourself regularly.
- 46. Don't be shy about pulling something you like out of the trash.

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CITINGS**Kicking Wiki Out Of The Patent Office**

Patents are enduring, conferring rights on their owners for up to 20 years. Yet until about a week ago, scores of them may have been granted based partly on information that can be altered with a keystroke from anyone surfing the Web.

On Aug. 15, the U.S. Patent & Trademark Office yanked Wikipedia from the digital toolbox its examiners use to help determine a patent application's validity. But over the past several years, examiners used the online encyclopedia, which allows users to edit entries, to inform their decisions. Wikipedia has been cited in patent decisions on everything from car parts to chip designs.

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"The problem with Wikipedia is that it's constantly changing," Patents Commissioner John Doll said. "We've taken Wikipedia off our list of accepted sources of information." An agency spokesperson said inquiries from *BusinessWeek* about the use of Wikipedia led to the policy shift.

Critics say the change is long overdue. "I've been complaining about this for years," says Greg Aharonian, publisher of a patent newsletter and a longtime agency gadfly. "From a legal point of view, a Wiki citation is toilet paper." Doll says the agency used Wikipedia entries as background and not as a basis for accepting or rejecting an application.

By Lorraine Woellert

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Two-Minute Warning

The NFL almost fumbled this one. Less than a month before the start of the regular season on Sept. 7, it realized that its Wilson footballs, signed by retiring Commissioner Paul Tagliabue and still in production, were soon to be obsolete. It wasn't until Aug. 10, two days after Roger Goodell was named to the post, that Wilson Sporting Goods began to crank out Goodell-signed pigskins at its Ada (Ohio) plant, which will work overtime to make the 9,000 used in a season. Chris Considine, Wilson's president, says the factory lifted Goodell's signature from the contract he signed with Wilson as the NFL's COO. As for the 5,000 Tagliabue balls ready to go, the league will eat the costs (about \$250,000) and donate them to high schools.

By Tom Lowry

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BLOGSPOTTING**Musings Of An Adman**

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WHY READ IT

Advertising account planners -- the folks who interpret customer research and make sure the creative types are lined up with client strategies -- can learn from a master, Russell Davies, who gives "homework" assignments on this blog. For those outside advertising, this former head of planning at Nike (**NKE**) and ad shop Wieden+Kennedy has something for everyone: snapshots of ads and images that inspire him, theories about brand authenticity, and, it must be said, some really cute pictures of his son, Arthur.

By Jena McGregor

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TRADE TALK**"Uncle Sam Or Uncle Sucker?"**

Stock up on red chili peppers and buy that granite countertop now: Chuck Grassley, Senate Finance Committee chief, wants to stop U.S. tariff breaks to India (chilies) and Brazil (a granite exporter). Grassley (R-Iowa), who blames the countries for stalling the recent Doha trade talks, says that unless the White House ends preferential treatment for the two nations, he will block renewal of the \$1 billion, 140-country program that makes some imports from developing nations duty free. "Are we Uncle Sam or Uncle Sucker?" he asks.

The U.S. Trade Representative's Office is reviewing the program, with comments due Sept. 5. It may get an earful about some unintended consequences of Grassley's plan. McCormick & Co. (**MKC**) gets 80% of its chili peppers from India, and U.S. jewelers sell India's diamond rings. Importers of auto parts from Brazil may be hit harder: It's tough to find suppliers of these highly engineered items, says the Motor & Equipment Manufacturers Assn.

By Catherine Yang